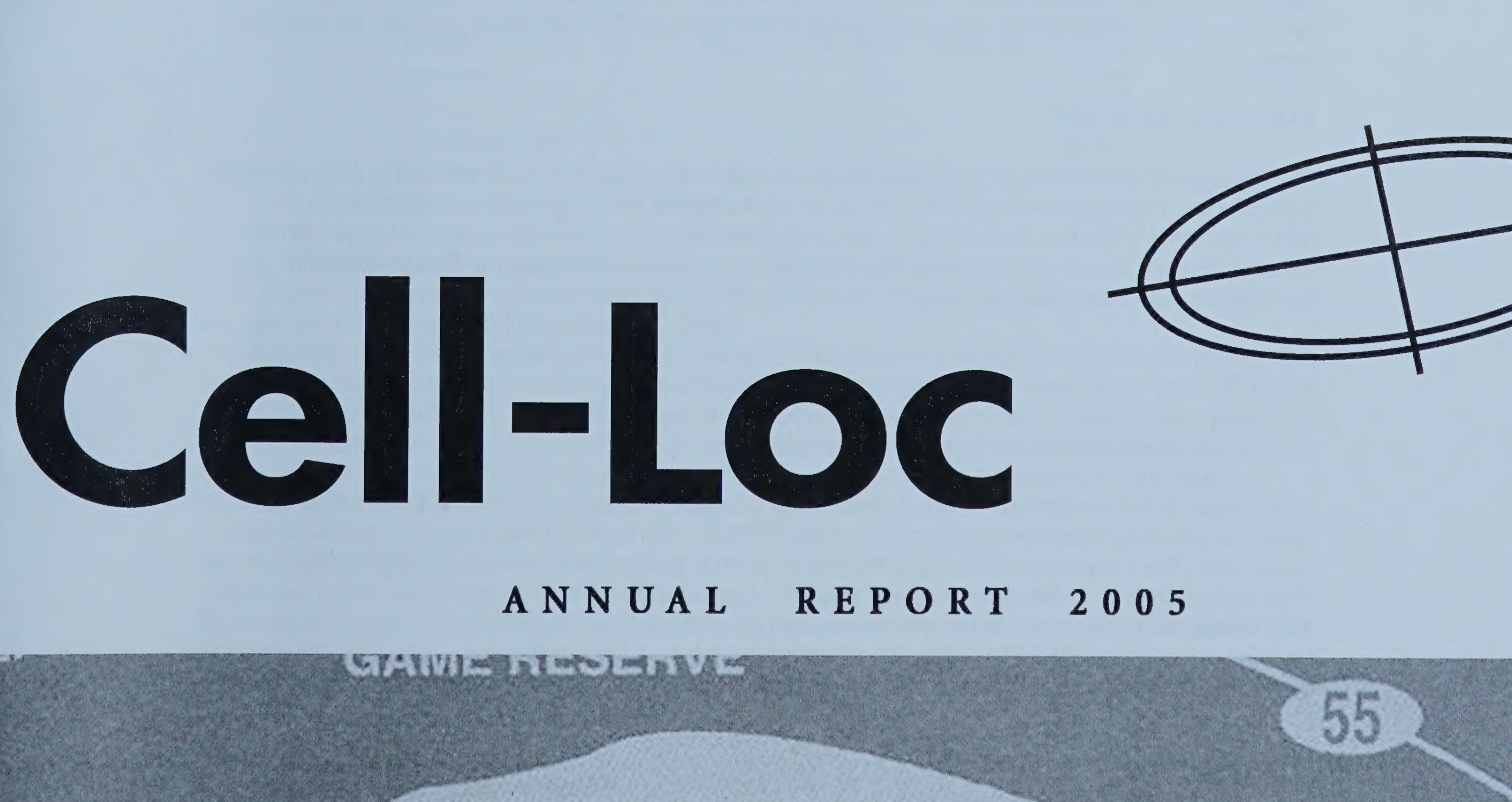
Cell-Loc

ANNUAL REPORT 2005



Cell-Loc

Management's Discussion and Analysis

Management's discussion and analysis (MD&A) of Cell-Loc Location Technologies Inc. (the "Company" or "CLTI") for the periods ended December 31, 2005 and December 31, 2004 contains forward-looking statements that are not historical in nature and involve risks and uncertainties. Forward-looking statements are not guarantees as to the Company's future results since there are inherent difficulties in predicting future results. Accordingly, actual results could differ from those expressed or implied in the forward-looking statements.

Corporate Strategy

The Company is the developer of a family of network-based wireless location products that enable location-based services. After deploying networks in Calgary and Saskatoon, CLTI entered into agreements, which enabled it to build a network in São Paulo, Brazil. The anchor customer for this network, Itau Seguros, has signed a five year contract with the Company to provide location services to assist in the recovery of stolen vehicles. The Company plans to further enhance revenue opportunities in the stolen vehicle market in São Paulo beyond the number of vehicles committed under this agreement, as well as develop additional vertical markets utilizing the existing network. In addition to the opportunities in the São Paulo market, the Company plans to use its success in Brazil to showcase its technology and the potential for its use on a global scale.

CLTI's strategy is to execute a large scale roll-out of its technology through qualifying potential candidates for licensing geographic territories or vertical market opportunities or partnering with parties on a joint venture basis. The Company is currently entertaining discussions with international companies with interest in utilizing the Company's intellectual property on a global basis.

São Paulo Network

CLTI designed and deployed a wireless location network in São Paulo, Brazil using its proprietary technology. The Company entered into lease agreements with several tower companies and other landlords to install base stations and antennas throughout the city in accordance with the network design. Lease agreements have terms varying from one month to five years, with termination rights available in certain circumstances.

A Brazilian manufacturer has been contracted to produce the proprietary beacons for the network at significantly lower price than beacons that had previously been produced in Canada. The Company has worked closely with the manufacturer in establishing the manufacturing process and putting in place manufacturing test procedures.

As a result of the completion of the network, the Company expects to commence commercial operations in São Paulo in the second quarter of 2006. Pursuant to the proposed terms of the agreement, the Company will receive minimum annual guaranteed revenue of US$4,200,000 from one customer in the stolen vehicle market. Opportunities exist for additional revenues in the aftermarket for stolen vehicle monitoring as well as additional vertical markets such as fleet tracking and asset monitoring. The Company believes that market demand will be robust given the security environment in Brazil and the low price point for the Beacon.

Cell-Loc

Calgary Network

Due to the Company's focus on the activities in Brazil, there was little activity during the year in the Calgary network. The Company continues to assess business development activities with its partner, Location System Solutions Inc. ("LSSI"), a company controlled by Mr. Keith Bohn (a director of CLTI) and Mr. David Mullen for the Calgary wireless location network. In addition to the existing Calgary network, LSSI also owns the rights to participate in Austin, Texas and any further networks to be developed in Alberta. CLTI under a license agreement for the Greater Vancouver territory will receive $500,000 from LSSI after successful completion of the São Paulo, Brazil network. The Vancouver network will be built and operated through a jointly owned entity, which will be owned 51% CLTI and 49% LSSI.

Corporate Overview

During the year, the main activity of the Company was the design, construction and deployment of a major wireless location network in São Paulo, Brazil. The Company designed and assembled base stations in Canada using both components held in inventory and components procured from third parties. The base stations were shipped to Brazil and deployed in a network designed by the Company to provide coverage for the City of São Paulo. The Company spent $4,918,000 developing the network during 2005.

The Company financed the cost of operations and the deployment of the network in São Paulo through issuance of common stock for net proceeds of $7,146,000.

Operations

Following is a summary of the comparative financial information for the past two fiscal years:

($000's)	12 months ended December 31, 2005	13 months ended December 31, 2004
Revenues	$41	$101
Net loss	($3,602)	($3,091)
Net loss per share	($0.06)	($0.09)
Total Assets	$9,929	$5,414
Long-term Liabilities	$511	$3,890

During the twelve months ended December 31, 2005 the Company incurred a net loss of $3,602,000 (six cents per share) compared to a net loss of $3,091,000 (nine cents per share) for the thirteen months ended December 31, 2004.

Operations

Operations expenses for 2005 of $270,000 resulted from operating the Calgary network ($229,000) as well as the Saskatoon network ($41,000) through the Company's subsidiary, CityTrac Ltd.

General and Administrative

Expenses for general and administrative costs for the twelve month period were $2,681,000. The expenses were incurred to operate and staff the corporate office ($2,242,000) and the administrative cost of the Brazilian venture ($439,000).

Liquidity and Capital Resources

The Company had a cash balance of $420,000 at December 31, 2005. The Company continues to scrutinize its ongoing expenditures to ensure optimal use of cash resources. Subsequent to the year end, the Company completed two private placements in the amount of $2,091,000.

Business Risks

The Company's ability to continue to generate revenue and achieve positive cash flow in the future is dependent upon various factors, including the level of market acceptance of its services, the degree of competition encountered by the Company, the cost of acquiring new partners, technology risks, the ability to fund continued network deployment and operations, general economic conditions and regulatory requirements.

In order to execute its strategy, the Company may require additional financing for its business development activities, its network deployments and to fund its operations. To date, CLTI has been successful in acquiring financing through private placement of its common shares.

The market for location-based services is just beginning to develop and is subject to rapid technological change. The Company's business plan is focused on attracting and contracting other entities to apply its technology in city, regional or national networks. These third parties will be required to operate the project and invest funds in the infrastructure, working capital, and staff to develop the potential of their contracted area. The Company's continuing research, development and testing may cause significant strain on the Company's management, technical, financial and other resources.

To remain competitive the Company must be able to keep pace with technological developments and change its product lines to meet new demands. The Company will depend on designing and developing products that have not been commercially tested to achieve much of its future growth.

The wireless location solution that the Company plans to offer is an emerging technology, and the application of existing, proposed or future regulation to the Company's offering cannot be reliably determined at this stage of development.

The Company's ability to continue ongoing operations is dependent upon contracting parties to license the Company's technology and then implementing a commercial service business. The Company's ability to generate net income and positive cash flow in the future is dependent upon various factors, including:

- the level of market acceptance of its technology;
- the ability to enter into license agreement to deploy and operate the Company's proprietary wireless location network technology;
- the degree of competition encountered by the Company; and
- the Company's ability to manage growth.

Management's Report

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Board of Directors of the Company. Management has prepared and presented the consolidated financial statements in accordance with accounting principles generally accepted in Canada and has made any significant accounting judgments and estimates required. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has developed and maintains systems of internal controls designed to provide reasonable assurance that reliable and relevant financial information is produced. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and ensuring Management meets their financial reporting responsibilities.

The Audit Committee consists solely of directors who are not officers of the Company and reviews with Management and the external auditors the annual consolidated financial statements of the Company prior to submission to the Board of Directors for final approval. The Audit Committee also meets during the year with Management and the external auditors to discuss internal control issues, auditing matters and financial reporting issues. External auditors have free access to the Audit Committee without obtaining Management approval.

The shareholders have appointed KPMG LLP as the external auditors of the Company, and in the capacity, they have examined the consolidated financial statements as at December 31, 2005 and 2004 and for the periods then ended.

Sheldon Reid

SHELDON D. REID
PRESIDENT & CEO

DAVID D. GUEBERT
VP FINANCE & CFO

KPMG

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Cell-Loc Location Technologies Inc. (the "Company") as at December 31, 2005 and December 31, 2004 and the consolidated statements of Operations and Deficit and cash flows for the year ended December 31, 2005 and the thirteen months ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended December 31, 2005 and the thirteen months ended December 31, 2004 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 25, 2006

CELL-LOC LOCATION TECHNOLOGIES INC.

Consolidated Balance Sheets
(In thousands of dollars)

	December 31, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 420	$ 421
Restricted cash (note 4)	77	75
Accounts receivable	58	17
Deposits and advances	802	–
Other current assets	234	21
	1,591	534
Network assets (note 5)	7,804	4,273
Capital assets (note 5)	311	308
Intellectual property and other intangible assets (note 5)	223	299
	$ 9,929	$ 5,414
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 991	$ 169
Long-term debt (note 7)	–	3,338
Deferred revenue	3	1
Government assistance (note 6)	508	551
Shareholders' equity:		
Share capital (note 8)	14,634	4,268
Contributed surplus (note 8(c))	486	178
Deficit	(6,693)	(3,091)
	8,427	1,355
Future operations (note 2)		
Commitments and contingencies (note 11)		
Subsequent events (note 13)		
	$ 9,929	$ 5,414

See accompanying notes to consolidated financial statements.

On behalf of the Board

Bohdan (Don) Romaniuk

Charles H.D. Hotzel

CELL-LOC LOCATION TECHNOLOGIES INC.

Consolidated Statements of Operations and Deficit
For the year ended December 31, 2005 with figures for the thirteen months ended December 31, 2004
(In thousands of dollars except per share data)

	2005	2004
Revenues	$ 41	$ 101
Operating expenses:		
Operations	270	432
Marketing and business development	20	63
General and administrative	2,681	2,299
Foreign exchange gain	(110)	(267)
Depreciation and amortization	317	409
Total operating expenses	3,178	2,936
Loss from operations	3,137	2,835
Less:		
Interest expense	2	283
Interest income	(3)	(26)
Financing expense	466	–
Income taxes (recovery)	–	(1)
Net loss	$ (3,602)	$ (3,091)

	2005	2004
Deficit, beginning of the period	$ (3,091)	$ (88,721)
Elimination of deficit on reorganization (Note 1)	–	88,721
Net loss for the period	(3,602)	(3,091)
Deficit	$ (6,693)	$ (3,091)
Net loss per share	$ (0.06)	$ (0.09)
Weighted average number of shares outstanding:		
Basic and fully diluted	56,156,684	35,818,867
Shares issued and outstanding	83,003,113	36,194,669

See accompanying notes to consolidated financial statements.

CELL-LOC LOCATION TECHNOLOGIES INC.

Consolidated Statements of Cash Flows
For the year ended December 31, 2005 with figures for the thirteen months ended December 31, 2004
(In thousands of dollars except per share data)

	2005	2004
Cash provided by (used in):		
Operating:		
Net loss for the period	$ (3,602)	$ (3,091)
Items not affecting cash:		
Deferred revenue	2	(99)
Interest accrued on long-term debt	–	262
Depreciation and amortization	317	409
Unrealized foreign exchange	–	(267)
Stock based compensation (note 8(c))	308	178
	(2,975)	(2,608)
Change in non-cash working capital	(277)	158
	(3,252)	(2,450)
Financing:		
Cash acquired under plan of arrangement (Note 1)	–	2,342
Realized foreign exchange loss	(118)	–
Issue of common stock, net of issue costs	7,146	150
Restricted cash	(2)	(75)
Paid to dissenting warrant holder	–	(62)
	7,026	2,355
Investing:		
Network assets	(3,659)	(98)
Intellectual property and capital assets	(116)	(4)
Proceeds on sale of assets	–	4
	(3,775)	(98)
Decrease in cash and equivalents	(1)	(193)
Cash and equivalents, beginning of period	421	614
Cash and equivalents, end of period	$ 420	$ 421
Interest paid	$ 2	$ 21

See accompanying notes to consolidated financial statements.

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

Cell-Loc Location Technologies Inc. (the "Company" or "CLTI") was incorporated under the laws of Alberta, Canada under the name of 1073691 Alberta Ltd. on October 29, 2003. On November 24, 2003, under the Alberta Business Corporate Act, a certificate of amendment was filed which renamed 1073691 Alberta Ltd. as Cell-Loc Location Technologies Inc. On December 5, 2003, CLTI common shares began trading on the TSX Venture Exchange (the "TSX-V") under the trading symbol LTI. On June 28, 2004, the Company announced that it had changed its year-end to December 31. As a result of changing the year end, the comparative financial statements reflect the thirteen month period ended December 31, 2004.

The Company is in the business of researching, developing and licensing its network-based wireless location technology, which integrates proprietary hardware, software and scientific algorithms. CLTI is focused on its Beacon technology, which enables location-based services such as fleet tracking, stolen vehicle recovery, inventory tracking, etc. With licensees and through joint ventures, CLTI's goal is to deploy wireless location networks and support the offering of location-based services. Using this model, revenue will come to the Company through upfront licensing fees and royalties as well as through its joint venture ownership of operating networks.

1. Basis of presentation:

In accordance with a plan of arrangement (the "Plan") involving CLTI and CLTI's former parent company Capitol Energy Resources Ltd. ("Capitol"), (formerly named Cell-Loc Inc. ("Cell-Loc")), and other parties, which was approved by the Court of Queen's Bench of Alberta on December 1, 2003, the following transactions were completed:

a) Transfer of assets:

Cell-Loc's technology business and related material assets and rights and certain liabilities and obligations were transferred to CLTI for consideration of 35,052,168 shares of CLTI. These shares were subsequently distributed by Cell-Loc to its shareholders of record immediately preceding the plan of arrangement. Certain current assets and liabilities along with income tax attributes of Cell-Loc remained with Capitol as a result of the Plan. A portion of the cash contributed in recapitalizing Capitol was transferred to CLTI in consideration of the value of the net assets retained by Capitol.

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, page 2

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

1. Basis of presentation: (continued)

The following is a summary of the transaction:

	November 30, Transactions	December 1, 2003 of Arrangement	Transferred on Plan
Net assets transferred:			
Cash	$ 614	$ 2,342	$ 2,956
Other current assets	144	(62)	82
Network assets	3,342	–	3,342
Interest in assets held by supplier	997	–	997
Capital assets	474	–	474
Intangible assets	379	–	379
Current liabilities	(1,927)	1,641	(68)
Advances under Plan	(200)	200	–
Long-term liabilities	–	–	(3,994)
	$ 3,823	$ 4,121	$ 4,168
Consideration:			
35,052,168 common shares issued	$ 3,823	$ 4,121	$ 4,168

As the transfer of assets and liabilities was between related parties, the transaction has been recorded at the carrying value of the net assets transferred.

A contribution of $200 was made by private investors, including officers and directors of the Company and Capitol prior to the plan of arrangement in consideration of convertible, redeemable debentures. Capitol retained this liability.

Transaction costs amounting to $277 were paid by Cell-Loc on behalf of the Company at the time of the transaction, thereby reducing the net assets transferred. In addition, the Company subsequently reached a settlement with a third party holder of warrants of the former Cell-Loc Inc. in respect of the right of dissent exercised by that warrant holder and in connection with the Plan. The Company paid the dissenting warrant holder $62 and issued stock valued at $100. Share capital has been adjusted to report these costs.

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, page 3

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

(b) Warrants:

In accordance with the Plan, the Company issued 2,294,447 warrants to shareholders who held warrants in Cell-Loc, on a one for one basis. The exercise prices of the warrants are the exercise prices of the Cell-Loc warrants.

(c) Stock options:

In respect of Cell-Loc's outstanding stock options, each outstanding options holder was issued one option to purchase a CLTI share at the existing Cell-Loc option price and with the same term. There were 1,297,292 options issued under the Cell-Loc Plan.

2. Future operations:

The Company is focused on commercializing its wireless product and has deployed networks in São Paulo, Brazil and Calgary and Saskatoon, Canada.

The Company and the holders of the license agreements have incorporated companies in which the Company owns an operating interest in the Saskatoon network, São Paulo network and Calgary network. Through these companies, the Company has deployed existing assets and expertise to model the commercial viability of the service.

The Company's network assets are carried at their cost, less impairment arising due to obsolescence or to the likelihood that certain assets may not be used in deploying the networking technology. The net carrying value of these assets is $7,804 (2004 - $4,273). The carrying value of the Company's network assets is dependent upon successful deployment of the Company's network assets and the penetration of its service offering into viable markets. Although these assets have been written down, they remain available for use by the Company in future network deployment opportunities. The timing and commercial success of future network deployment remains uncertain. Should substantial deployment of the network assets not take place, the value of these assets may become subject to impairment.

The Company's ability to generate net income and positive cash flows is dependent upon various factors including its ability to identify appropriate business partners, the degree of competition encountered by the Company, technology risks, the ability to fund continued network deployments and operations, the presence of positive general economic conditions and favorable regulatory requirements.

These consolidated financial statements have been prepared on the basis that the Company will continue to raise sufficient financing and to realize its assets and discharge its obligations in the ordinary course of business and do not reflect adjustments, such as revaluation to liquidation values and reclassification of balance sheet items, that would otherwise be necessary if the going concern assumption was not valid.

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, page 4

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

3. Significant accounting policies:

The consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in Canada and are denominated in Canadian dollars.

(a) Consolidation:

The consolidated financial statements include the accounts of CLTI and its subsidiaries hereinafter referred to as the "Company" or "CLTI". Subsidiaries include the following companies, their location and CLTI's ownership interest:

X3 Telecomunicações e Equipamentos Ltda. (Brazil)	74%
CityTrac Ltd. (Canada)	75%

The Company has entered into a license agreement and joint venture agreement for the Calgary network whereby CLTI owns 30% of the operating company. However, CLTI is responsible for 100% of the network capital costs and network operating costs prior to realization of commercial revenue from the network. To date, there has not been any material commercial activity in this network.

There is no minority interest reflected on the balance sheet as subsidiaries with minority shareholders have not had material equity contributions from the minority shareholders and these subsidiaries have incurred losses to date.

The Company holds a 35% ownership in a Joint venture to license the Company's proprietary Code Division Multiple Access ("CDMA") technology in China. No activity has been recorded related to the joint venture during the periods ended December 31, 2005 and 2004.

(b) Use of estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from estimates.

(c) Cash and cash equivalents:

Cash and cash equivalents consist of cash balances with banks and short-term investments with original maturities of less than three months. The fair value of cash and cash equivalents approximates the amounts shown in the financial statements.

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, page 5

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

3. Significant accounting policies: (continued)

(d) Foreign currency:

Accounts of foreign operations, which are considered financially and operationally integrated, are translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates.

Transactions in foreign currencies are translated at average rates for the period, except for depreciation and amortization, which are translated on the same basis as the related assets. Exchange gains or losses are reflected in income.

(e) Long term assets:

Network assets represent assets that have been deployed into networks, as well as components and in-process assets that are on hand to be manufactured into wireless location products and deployed within the Company's future networks. These network assets are depreciated over their estimated useful lives using the declining balance method once they have been deployed and are available for commercial use. Long-term assets are recorded at cost less related investment tax credits and impairment arising to obsolescence or to the likelihood that certain assets may not be used, in which case they are written down to fair value. These assets are depreciated over their estimated useful lives using following methods and annual rates:

Assets	Method	Rate
Network assets	Declining balance	20% - 30%
Capital assets	Declining balance	30%
Intellectual property	Declining balance	40% - 60%
Patents and trademarks	Straight-line	20%

Amortization of costs related to network assets begins once the Company commences commercial operations.

When events and circumstances warrant a review, the Company evaluates the carrying value of its long-term assets for potential impairment. An impairment loss is recognized when the estimated net recoverable amount of a long-term asset is less than its carrying value. An impairment loss is measured as the amount by which the carrying amount exceeds its fair value. Any impairment in these assets is written off against earnings in the year that such impairment becomes evident.

(f) Government contracts and assistance:

Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets. Government assistance relating to research and product development is recorded as a cost recovery when the expenditures are incurred. Government contracts relating to consulting services for particular studies are recorded as revenue. Government advances containing commercial repayment provisions are recorded as repayable debt.

CELL-LOC LOCATION TECHNOLOGIES INC.
Notes to Consolidated Financial Statements, page 6

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

3. Significant accounting policies: (continued)

(g) Income taxes:

The Company uses the liability method of tax allocation in accounting for income taxes. Under this method, future income tax liabilities and future income tax assets are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(h) Per share data:

Basic and diluted earnings and net loss per share are calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for determining dilution, whereby all options and convertible instruments whose average price is less than or equal to the daily weighted average share price of the period to date are considered outstanding and are deemed to have been converted, if diluted at the average share price for the period. Diluted net loss per share is not presented, as the result would be anti-dilutive.

(i) Stock-based compensation plans:

The Company has adopted fair value accounting for stock based compensation. Under this method, all equity instruments awarded to employees and the cost of the service received as consideration are measured and recognized based on the fair value of the equity instruments issued with corresponding amount credited to Contributed surplus. Compensation expense is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded.

4. Restricted cash:

Restricted cash is comprised of cash invested in term deposits with a Canadian chartered bank held as collateral for a letter of credit in the amount of $75, which is held as security for a building lease by the Company's landlord.

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, page 7

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

5. Long term assets:

December 31, 2005	Cost	Accumulated depreciation	Net book value
Network assets:			
Assets available for network deployment	$ 3,170	$ –	$ 3,170
Assets deployed in networks	4,922	288	4,634
	8,092	288	7,804
Capital assets:			
Equipment and furniture	545	234	311
Leasehold improvements	44	44	–
	589	278	311
Intellectual property and other intangible:			
Patents and trademarks	381	158	223
	$ 9,062	$ 724	$ 8,338

December 31, 2004	Cost	Accumulated depreciation	Net book value
Network assets:			
Assets available for network deployment	$ 3,846	$ –	$ 3,846
Assets deployed in networks	590	163	427
	4,436	163	4,273
Capital assets:			
Equipment and furniture	428	140	288
Leasehold improvements	44	24	20
	472	164	308
Intellectual property and other intangible:			
Patents and trademarks	381	82	299
	$ 5,289	$ 409	$ 4,880

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, page 8

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

6. Government contracts and assistance:

The Company assumed obligations related to the contribution agreement dated September 1, 1999 with the National Research Council Industrial Research Assistance Program ("IRAP"). Pursuant to this agreement the Company is required to repay 150% of the amounts received through the IRAP to a maximum of $750. Payments are to be made at a rate of 4% of the Company's revenue until the earlier of full repayment or August 30, 2011. To the extent that the maximum amount is not fully paid by August 30, 2006, payments continue at a rate of 4% of the Company's revenue but required payments only total the amount originally funded. As at December 31, 2005, the Company has established a liability in the amount of $551 (2004 - $551) less a current portion of $43.

7. Long-term debt:

The Company assumed a Convertible Promissory Note (the "Note") of US $2,500 with a supplier with the purchase of assets from the former Cell-Loc Inc. During April 2005 the Note and accrued interest was fully settled through the issuance of 5,563,116 common shares from treasury at US 50¢ per share. No interest was accrued on the Note during 2005 (2004–$329).

The Company entered into a debenture agreement with a lender in November 2004 to provide funding of up to US$3,500 to deploy the network in Brazil. The Company has decided not to draw upon the financing available under this debenture and has entered into an agreement with the lender to terminate the debenture agreement. Under the terms of this agreement, CLTI has agreed to pay the lender US$400 as full payment for fees and costs related to the debenture. The amount due will be paid in five installments during 2006.

8. Share capital:

(a) Authorized: Unlimited number common shares

(b) Issued and outstanding:

	Common Shares	Amount
Shares issued on incorporation	1	$ –
Issued on purchase of assets and liabilities	35,052,168	4,167
Transaction costs	–	(162)
Issued for repayment of debt	40,000	13
Issued for settlement with dissenting warrant holder	312,500	100
Issued for cash	790,000	150
Outstanding at December 31, 2004	36,194,669	$ 4,268
Issued for repayment of debt	5,563,116	3,220
Issued for cash, net of issue costs	41,224,994	7,142
Issued under stock option program	20,334	4
Outstanding at December 31, 2005	83,003,113	$ 14,634

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, page 9

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

8. Share capital: (continued)

(c) Stock option plan:

The Company has a stock option plan (the "Option Plan") for directors, officers and employees. The estimated fair value of stock options at grant date has been determined using the Black-Scholes option-pricing model with the following assumptions: (i) the expected dividend rate of 0% and expected volatility; (ii) risk-free interest rate as based on comparable term Canadian Government securities at the date of issue. Expected option life for the option used was equal to the lesser of the actual option life or 2 years.

During 2005, the Company granted 3,375,469 stock options to employees, consultants and directors with exercise prices ranging from 16.5¢ to 28¢ of which 1/3 were vested on the grant date and the remaining vesting equally either at the end of one and two years of service or at the completion of certain project milestones. The exercise price was based upon the market price at the stock option grant date. The options were valued using the Black - Scholes model using volatility calculated using the trading history of the Company's stock, ranging from 127.9% to 155.2%; an expected life of two years and the risk free interest rate as determined from Government of Canada securities with similar duration. The fair value of options issued during the year using these assumptions ranged from 8.5¢ to 20.6¢ per option.

A summary of option activity in 2005 is shown below:

	Number	Range of Exercise Prices		Weighted average exercise price	Black-Scholes fair market range	
Outstanding at Dec. 31, 2004	2,241,763	$ 0.120	$ 47.700	$ 5.960	$ –	$ 0.151
Granted February	1,581,000	0.215		0.22	0.118	0.146
Granted March	20,000	0.185		0.19	0.100	0.123
Granted May	10,000	0.180		0.18	0.097	0.119
Granted June	10,000	0.210		0.21	0.113	0.139
Granted July	40,000	0.170	0.180	0.17	0.082	0.107
Granted August	1,210,103	0.170	0.185	0.17	0.085	0.110
Granted September	18,968	0.260		0.26	0.126	0.155
Granted October	449,800	0.215		0.22	0.089	0.158
Granted November	18,543	0.230		0.23	0.095	0.169
Granted December	17,055	0.280		0.28	0.116	0.206
Options exercised	(20,333)	0.160		0.16	0.081	
Cancelled	(436,987)	0.160	47.700	28.40	–	0.150
Outstanding at Dec. 31, 2005	5,159,912	$ 0.120	$ 47.700	$ 0.312	$ 0.082	$ 0.206

CELL-LOC LOCATION TECHNOLOGIES INC.

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Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

8. Share capital: (continued)

Range of exercise price outstanding				Options outstanding: Number outstanding	Options outstanding: Weighted average remaining contractual life (months)		Options outstanding: Weighted average exercise price	Options exercisable: Number exercisable		Options exercisable: Weighted average exercise price		2005		2004
$	0.12	$	0.28	4,630,469	49	$	0.20	1,976,495	$	0.20	$	308	$	130
	0.43		0.60	219,953	9		0.47	219,953		0.47				26
	1.55		1.68	234,000	16		1.59	234,000		1.59				18
	2.05		2.75	75,490	1		2.63	75,490		2.63				4
$	0.12	$	2.75	5,159,912	46	$	0.31	2,505,938	$	0.43	$	308	$	178

(d) Share purchase warrants:

The Company issued 20,612,498 warrants to private placement investors and 1,374,200 broker warrants to investment advisors during 2005. The warrants were not accorded any value on issuance.

Share purchase warrants outstanding at December 31, 2005 are summarized as follows:

Year of Expiry	Range of exercise price outstanding				Number outstanding	Weighted average remaining life (months)		Weighted average exercise price
2006	$	0.22	$	2.32	13,496,498	11.2	$	0.25
2007		0.20		1.91	8,840,200	22.9		0.30
	$	0.20	$	2.32	22,336,698	15.8	$	0.27

CELL-LOC LOCATION TECHNOLOGIES INC.

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Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

8. Share capital: (continued)

Share purchase warrants outstanding at December 31, 2004 are summarized as follows:

Year of Expiry	Range of exercise price outstanding				Number outstanding	Weighted average remaining life (months)	Weighted average exercise price	
2005	$	0.45	$	2.05	1,944,447	3.5	$	0.84
2006		0.41		2.32	250,000	22.0		1.37
2007		1.91			100,000	27.0		1.91
	$	0.41	$	2.32	2,294,447	6.5	$	0.94

9. Income taxes:

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial statutory tax rates as follows:

		December 31, 2005		December 31, 2004
Expected recovery at 33.6% (2004 – 33.9%)		(1,210)		(1,047)
Decrease (increase) resulting from:				
Benefit of future tax assets not recognized	$	1,102	$	983
Foreign losses		104		60
Capital tax and other		–		1
Non-deductible expenses		4		2
Income tax recovery	$	–	$	(1)

CELL-LOC LOCATION TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, page 12

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

9. Income taxes (continued):

The significant components of the Company's future income tax assets and liabilities are as follows:

	December 31, 2005	December 31, 2004
Future tax assets:		
Non-capital losses	$ 1,769	$ 985
Network, capital and intangible assets	1,570	125
	3,339	1,110
Future tax asset valuation allowance	(3,339)	(1,110)
Net future tax asset	$ –	$ –

At December 31, 2005, the company has non-capital income tax losses of approximately $5,268 (2004 - $2,849), which may be carried forward to reduce future years' taxable incomes. These losses begin to expire in 2010.

10. Financial instruments:

Financial instruments are comprised of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities. The carrying value of the Company's financial current assets and liabilities approximate their estimated fair values as at December 31, 2005 due to their short terms to maturity. The carrying value of long-term debt approximates its fair value as the terms and conditions of the borrowing arrangement are comparable to current market terms and conditions for similar items. The Company is exposed to interest rate risk to the extent that it carries cash and cash equivalents and restricted cash, and available market interest rates, from which the Company earns interest revenue, fluctuate. The Company is also exposed to currency risk from its ongoing investment in the operations of its Brazilian subsidiary.

11. Commitments and contingencies:

Future minimum annual lease payments under tower and office operating leases are as follows:

	Canada	Brazil
2006	$ 302	$ 471
2007	250	367
2008	37	323
2009	–	173
2010	–	43
Total future minimum lease payments	$ 590	$ 1,377

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Notes to Consolidated Financial Statements, page 13

Periods ended December 31, 2005 and 2004
(In thousands of dollars except per share data)

12. Segmented Information:

CLTI operates in two geographic segments: Canada and Brazil. Other than the financial statement items specifically noted below, all operations are in Canada.

	Canada	Brazil	Total
Current Assets	$ 535	$ 1,056	$ 1,591
Current Liabilities	829	162	991
Network assets	3,632	4,172	7,804
Capital assets	207	104	311
Intellectual property	223	–	223
	4,090	4,276	8,338
General and administrative	$ 2,242	$ 439	$ 2,681

13. Subsequent events:

(a) During January 2006, the Company completed a private placement consisting of 5,528,000 units ("Units") in the capital of the Company for gross proceeds of approximately $1,382 at a price of 25¢ per Unit. Each Unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one common share at an exercise price of 40¢ per common share, at any time on or before the 24 month anniversary of the closing of the Offering, subject to adjustment in certain events.

(b) During March 2006, the Company completed a private placement consisting of 2,835,000 units ("Units") in the capital of the Company for gross proceeds of approximately $709 at a price of 25¢ per Unit. Each Unit consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder thereof to acquire one common share at an exercise price of 40¢ per common share, at any time on or before the 24 month anniversary of the closing of the Offering, subject to adjustment in certain events.

(c) During January 2006, the Company granted 2,162,000 stock options to employees and directors with an exercise price of 32¢ of which 1/3 were vested on the grant date and the remaining vesting equally at the end of one and two years of service.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Bohdan (Don) Romaniuk*
Chair of the Board
Business Executive
Calgary, Alberta

Keith Bohn
Business Executive
Calgary, Alberta

Dr. Michel Fattouche
Chief Technical Officer
Cell-Loc Location Technologies Inc.
Calgary, Alberta

Charles Hotzel*
Barrister and Solicitor
Charles Hotzel & Associates
Calgary, Alberta

Michael Lisogurski*
President
MR Liscom Consulting
Aurora, Ontario

Sheldon Reid
President & CEO
Cell-Loc Location Technologies Inc.
Calgary, Alberta

* member of Audit Committee

OFFICERS

Sheldon Reid
President & CEO

Dr. Michel Fattouche
Chief Technical Officer

David D. Guebert, CA, CPA
VP Finance & CFO

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TSX Venture Exchange: LTI

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